



Energy Future System Operator

Response form

The consultation is available at: <https://www.gov.uk/government/consultations/proposals-for-a-future-system-operator-role>

The closing date for responses is 28th September 2021

Please return completed forms to:

System Operator Team
Department for Business, Energy and Industrial Strategy
Abbey 1, 3rd Floor,
1 Victoria Street
London
SW1H 0ET

AND

Future System Operation
Office of Gas and Electricity Markets
10, South Colonnade
Canary Wharf London
E14 4PU

Email: futuresystemoperator@beis.gov.uk

Personal / Confidential information

Please be aware that we intend to publish a summary of all responses to this consultation.

Information you provide in response to this consultation, including personal information, may be disclosed in accordance with UK legislation (the Freedom of Information Act 2000, the Data Protection Act 2018 and the Environmental Information Regulations 2004).

Ofgem will publish non-confidential responses (or parts of response) on its website. If you want your response in whole or in part to be considered confidential, please tell us in your response and say why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

Please be aware that we cannot guarantee confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not be regarded by us as a confidentiality request.

We will process your personal data in accordance with all applicable data protection laws. See our privacy policy.

All responses will be processed by BEIS and Ofgem as this is a joint consultation.

We will summarise all responses and publish this summary on GOV.UK. The summary will include a list of names or organisations that responded, but not people's personal names, addresses or other contact details.

I want my response to be treated as confidential ☐

Comments: [Click here to enter text.](#)

About You

Name: Audrey MacIver

Organisation (if applicable): Highlands and Islands Enterprise

Address: An Lochran, 10 Inverness Campus, Inverness, IV2 5NA

	Respondent type
<input type="checkbox"/>	Business representative organisation/trade body
<input type="checkbox"/>	Central government
<input type="checkbox"/>	Charity or social enterprise
<input type="checkbox"/>	Individual
<input type="checkbox"/>	Large business (over 250 staff)
<input type="checkbox"/>	Legal representative
<input type="checkbox"/>	Local government
<input type="checkbox"/>	Medium business (50 to 250 staff)
<input type="checkbox"/>	Micro business (up to 9 staff)
<input type="checkbox"/>	Small business (10 to 49 staff)
<input type="checkbox"/>	Trade union or staff association
<input checked="" type="checkbox"/>	Other (please describe) Regional economic development agency (agency of Scottish Government)

Questions

Chapter 2

Questions in this section relate to

- The case for change

Question 1

Do you agree that net zero will create the need for new technical roles in the electricity and gas systems, and require a new approach to for energy system governance?

A ☒ Yes ☐ No

B

If not please explain why:

[Click here to enter text.](#)

Question 2

Do you agree that the establishment of a Future System Operator is needed to fulfil the kinds of technical roles needed to drive net zero?

A ☒ Yes ☐ No

B

If not please explain why:

[Click here to enter text.](#)

Question 3

Do you agree that a Future System Operator should have roles in both the electricity and gas systems?

A ☒ Yes ☐ No

B

If not please explain why:

Click here to enter text.

Question 4

Do you agree that a Future System Operator should be entirely separate from National Grid plc?

A

☒ Yes ☐ No

B

If not please explain why:

Click here to enter text.

Question 5

What issues are there with existing institutional arrangements in the UK energy system in relation to system-wide decision-making and planning?

Please provide your answer below:

We have concerns with the current institutional arrangements that are seriously impacting the development of renewables in the Highlands and Islands; one of the most productive regions of Great Britain:

- The current division of responsibilities between the ESO, Ofgem and BEIS across issues such as access charging and market development are producing inconsistent economic signals that do not support investment. For example, the ESO and Ofgem are proposing ever higher Use of System charges that make development uneconomic, whilst at the same time consulting on HVDC links to increase capacity for exports.
- The current arrangements do not recognise the regional impacts of decisions. For example, the recent Significant Code Reviews on network charging have made proposals that are likely to make the many small scale renewable developments that support Highlands and Islands communities unviable.

A Future System Operator and the institutional framework around it need to create an inclusive and just net zero system that balances both national and local needs and reflects an increasingly decentralised energy system. Low carbon heat and transport energy will require solutions that meet local customers' needs, which in remote rural communities will require local energy solutions. We are increasingly concerned that the existing institutions are unable to consider anything more than impact on average GB consumers, statistically dominated by urban communities in England.

Question 6

What examples/case studies are you aware of where net zero delivery in one part of the energy system did not adequately account for cross-system impacts or costs?

Please provide your answer below:

The Highlands and Islands area has significant capacity for long term storage and the development of green hydrogen as an alternative to fossil fuels, building on the offshore infrastructure and skills long established in the North Sea. Developing this will play a significant role in a just transition, noting the transferable skills in gas operations, and scope for re-purposing of the region's oil and gas terminals. There is also clear recognition of the need for more onshore wind to meet net zero targets, the majority of which is expected to be in Scotland.

Despite this, Ofgem and the ESO today are driving change in use of system tariffs that risk making these developments unviable within the current support mechanisms, and will act against UK and Scottish Government ambitions.

Question 7

Where should government focus in our efforts to improve systems thinking and coordination across the energy system?

Please provide your answer below:

Establishing an organisation which is able to make recommendations to national government and regulators, or even better, to take long term actions to develop a robust and resilient supply of renewable energy for all British citizens, taking account of both national and local considerations is essential for a just and inclusive energy transition.

Government must use this opportunity to establish a body with such capability quickly, establishing a Future System Operator.

We are concerned that the term 'Operator' in FSO reflects a focus that is too narrow. Whilst understanding operational issues is vital to developing a resilient and efficient system, it may reflect a too narrow or short-term perspective considering the remit proposed in the consultation.

Chapter 3

Questions in this section relate to

- What existing, enhanced and new roles and functions we consider a Future System Operator is well placed to take on to drive the transition to net zero.

Question 8

Do you agree that the FSO should undertake all the existing roles and functions of NGESO?

A

☐ Yes ☒ No

B

If not please explain why:

We understand the logic that an FSO could be built on the existing ESO capabilities, but we are concerned that this may simply lead to a continuation of the status quo and not drive the change required to develop the abundant resources the UK possesses.

Ultimately the FSO could take on all the ESO functions, but it is not evident that the ESO's day to day operations are in the most pressing need of reform through this process.

Question 9

Do you agree there is a case for the FSO to undertake the gas strategic functions outlined in Option 1?

A

☒ Yes ☐ No

B

If not please explain why:

Any future body should take a true whole systems perspective.

Question 10

Do you agree that there is not currently a case for the FSO to undertake all GSO roles and functions, including real time gas system operation, as outlined in Option 2?

A

☒ **Yes**

☐ **No**

B

If not please explain why:

Click here to enter text.

Chapter 3- New and enhanced FSO roles

Questions in this section relate to

- 3.2 in the FSO Consultation

Question 11

Do you have views on the proposal for an advisory role? What organisations do you consider would benefit from the provision of advice by the FSO?

Please provide your answer below

Any FSO should have the ability to independently recommend change to those in a position to implement it if the FSO does not have the powers itself.

The organisations established should be able to address both the national and local capabilities needed to ensure a just energy transition.

Who should bear the costs of providing that advice?

The efficient costs of providing the capabilities could be recovered from levies on higher carbon energy consumption, through existing mechanisms. It does not seem logical to place the costs of decarbonisation on those seeking to lower emissions.

Question 12

Do you have any views on the other areas where we are considering new and enhanced roles and functions for the FSO (outlined in section 3.2)?

Please elaborate:

We support any future system agency having a remit that covers energy for heat, transport, as well as the supporting digital systems to enable consumers to benefit from a smarter energy system that makes best use of renewable resources and creates transparency for those looking to develop them.

For the reasons we set out earlier, investment needs a clear and coherent framework across infrastructure and markets that operate in concert to support the development of renewable energy of all forms. We would therefore support any future system organisation having responsibilities for both technical and economic matters.

It would also be sensible for change proposals developed to consider the implementation of Codes and Standards. We do not understand how a number of separate code administrators would streamline an already complex system.

It is normal in large complex engineering systems for the system designer to have responsibility to co-ordinate both the technical and market operation requirements and set standards (including codes) to ensure the components of the system function correctly. This would logically sit with the proposed FSO.

Chapter 4

Questions in this section relate to

Organisation Design

- The high-level characteristics and detailed attributes which we consider are needed to achieve this, and seeks views on two different organisational models and the extent to which they meet these characteristics and attributes.

Question 13

What are your views on our proposed characteristics and attributes of a future system operator and how the models presented would deliver against them?

Please provide your answer below

We agree it should be independent of commercial interest, but it should also be able to freely recommend action to legislators and regulators on the implementation and development of policy.

We are not sure that a profit driven entity would be free to act (or be seen to be) sufficiently independent. Ensuring investors are entirely independent of any other energy investments would be complex.

Are there other characteristics or attribute that we have not yet considered?

Defining the organisation's objectives, culture and incentives will be essential in achieving trust in its actions by both participants in the energy markets and users of the energy system.

We recognise that acting in both local and national interests will be a significant challenge but our experience in Scotland shows that it will be vital for its legitimacy as we decarbonise essential heat and transport energy supplies.

Question 14

Are we considering the right organisation models for the FSO? And why?

Please provide your answer below

An independent FSO that recommends the actions needed to decarbonise the energy system needs to be truly independent of commercial interests across all vectors.

It needs to have technical, economic and operational excellence, but it may benefit from being able to draw from the depth of experience in today's ESO and GSO but not being captured by existing inherent assumptions.

Question 15

Are we considering the right elements for the FSO's regulatory and accountability frameworks?
And why?

Please provide your answer below

An independent FSO must be able to speak freely to government and any regulators. It must not simply enact policy set out in an SPS but also be able to advise where policy is ineffective or needs strengthening.

It should be independently scrutinised by a suitable regulatory body to give assurance to stakeholders that costs are appropriate, and its incentives are working in the interests of all.

The important objectives set out in 4.3.1 must be all forward looking and relate not just to electricity, for example the first objective 'identifying the needs of the energy system to maintain a secure reliable supply of low carbon energy to current and future consumers.'

Developing an efficient system must recognise regional needs, giving due regard to local impacts of wider policy decisions. At present insufficient weight is being given to impacts of changes to the development of renewables in the Highlands and Islands, and the system-wide benefits of dispersed generation on the GB system.

Question 16

Do you have views on the level of shareholding or control involving other ‘energy interests’ and the FSO at which a conflict of interest would become a concern?

Please provide your answer below

It is difficult to consider a level at which shareholdings of a specific type may or may not influence an independent organisation. Any shareholder owned organisation’s first duty will be to its shareholders.

Question 17

Are we considering the right implications of our proposals for Elexon and Xoserve?

Please provide your answer below

No comment.

Chapter 5

Questions in this section relate to

Implementation

- A preferred high-level approach for implementation of the FSO with the aim of seeking views on how the FSO can best implemented in practice

Question 18

What is your view on the preferred implementation approach?

Please explain why

Establishing an independent body to begin to define and develop the right capabilities before integrating critical operational functions from existing organisations should be actively considered by government.

This would allow a new body that is objectively separate from today’s organisations to be established quickly without putting operational functions in any way at risk.

The proposed implementation approach in 5.1 appears to support such an approach.

Question 19

Based on the areas where we are considering new and enhanced roles and functions for the FSO, which of these should be prioritised for development?

Please explain why

The ability to consider both national and regional considerations is of great importance to the Highlands and Islands. The present situation is leading to significant lost opportunity. We also consider that whole system planning and network development should be high on the agenda for the FSO, in order to ensure coordination and flexibility in accommodating the high levels of low and zero carbon technologies that are going to be necessary in meeting UK and Scottish Government climate targets.

Question 20

What do you believe are the risks to implementation?

Please provide your answer below

Slow implementation: We recognise that the right legislative framework is needed and that this takes time, but we believe it is important to get this in place in order to support the development of our rich renewable energy opportunities.

Organisational Design: It would be simple to take the current ESO and enhance its capabilities, but we are concerned that this will only reinforce existing issues. Establishing the FSO and its leadership before transitioning the necessary roles from existing SOs as well as developing new capabilities would create the potential for a truly transformative FSO.

How can these be mitigated?

Establishing an independent body to begin to define and develop the right capabilities before moving / integrating critical operational functions from existing organisation should be actively considered by government.

Question 21

Do you have any comments on potential implications of implementation for you, your organisation, or other stakeholders?

Please provide your answer below

An independent body that considers local as well as national energy supply and demand opportunities would be a significant step forward in developing the UK's rich supply of renewable energy resources, helping to create industrial benefits, enhance local resilience and support community wealth building in remote and rural areas

Chapter 6 – No comments on this section.

Impact assessment

- FSO Impact assessment which is presented alongside this consultation to assess the likely costs, benefits and distributional impacts of the policy options considered

Question 22

What is your view on the position there are likely to be cost savings across the energy system from an increased “whole system” view, as described in paragraphs 50-55 of the IA?

A

Please provide your answer below

B

If so, is the potential magnitude of savings illustrated fairly in the IA?

[Click here to enter text.](#)

C

If not, why not?

[Click here to enter text.](#)

Question 23

What is your view on the conclusion that policy intervention is likely to increase the benefits of onshore electricity network competition, as described in paragraphs 53-59 of the IA? If you agree, is the potential magnitude of savings illustrated fairly in the IA? If not, why not?

A

Please provide your answer below

If not, why not?

[Click here to enter text.](#)

Question 24

Do you think that the impact assessment has identified and considered the key costs and benefits of policy intervention?

A

☐ Yes

☐ No

B

If not, can you provide details on other impacts that have not been considered?

Click here to enter text.

Question 25

Do you think that the distribution of impacts is fairly represented, with impacted groups correctly identified? Outlined in table 5 of the IA.

A

☐ Yes

☐ No

B

If not, why not?

Click here to enter text.

Question 26

We invite respondents' views on whether the proposals for energy system governance reform may have a different impact on people who have a protected characteristic (age, disability, gender re-assignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex (gender) or sexual orientation), in different ways from people who don't have that characteristic.

Please provide any evidence that may be useful to assist with our analysis of policy impacts.

Click here to enter text.

Do you have any other comments that might aid the consultation process as a whole?

Please use this space for any general comments that you may have, comments on the layout of this consultation would also be welcomed.

Click here to enter text.

Thank you for your views on this consultation.

Thank you for taking the time to let us have your views. We do not intend to acknowledge receipt of individual responses unless you tick the box below.

Please acknowledge this reply ☒

At BEIS we carry out our research on many different topics and consultations, and your views are valuable to us. Would you be happy for us to contact you again from time to time either for research or about other consultations?

☒ Yes

☐ No